

## **REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL PARLIAMENT AND THE COUNCIL ON THEEWATERSKLOOF MUNICIPALITY**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Introduction**

1. I have audited the accompanying financial statements of the Theewaterskloof municipality, which comprise statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 3 to 67.

#### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), and the Division of Revenue Act of South Africa, 2010 (Act No. 1 of 2010) (DoRA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor-General's responsibility**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and General Notice 1111 of 2010 issued in Government Gazette 33872 of 15 December 2010. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **Opinion**

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Theewaterskloof municipality as at 30 June 2011, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and DORA.

## **Emphasis of matters**

8. I draw attention to the matters below. My opinion is not modified in respect of these matters:

## **Restatement of corresponding figures**

9. As disclosed in note 37 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of errors discovered during 2011 in the financial statements of the Theewaterskloof municipality at, and for the year ended, 30 June 2010.

## **Material underspending of the budget**

10. As disclosed in note 43 to the financial statements the municipality has materially underspent its capital budget to the amount of R37 million (46%). Included in this underspending was an amount of R29 million budgeted for housing under capital expenditure for which the related expenditure was reported under operating expenditure due to the housing projects not forming part of capital expenditure as the completed houses do not become the property of the municipality.

## **Additional matter**

11. I draw attention to the matter below. My opinion is not modified in respect of this matter:

## **Material inconsistencies in other information included in the annual report**

12. No material inconsistencies between the draft annual report and financial statements were identified. The final printer's proof of the annual report will be reviewed and any material inconsistencies then identified will be communicated to management. Should the inconsistencies not be corrected, it may result in the matter being included in the audit report.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

13. In accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages XX to XX and material non-compliance with laws and regulations applicable to the municipality.

## **Predetermined objectives**

### **Presentation of information**

14. The reported performance against predetermined objectives was deficient in respect of the following criteria:
- Performance against predetermined objectives was not reported using the National Treasury guidelines.

The following audit finding relates to the above criteria:

15. Corrective measures to improve performance for 57% of targets that have not been achieved were not disclosed as required by section 46 of the Local Government: Municipal Systems Act, 2000 (Act No 32 of 2000) (MSA), in the annual performance report.

### **Usefulness of information**

16. The reported performance information was deficient in respect of the following criteria:
- Measurability: The indicators are not well defined and verifiable, and targets are not measurable.

The following audit findings relate to the above criteria:

17. For the selected programmes, 23% of the key performance indicators audited were not well defined and measurable in the SDBIP.
18. One hundred percent (100%) of objectives and key performance indicators reflected in the Integrated Development Plan (IDP) for section 3.7 strategic focus areas and 3.8 linking of performance objectives with community needs, does not have targets that can be measured.

### **Reliability of information**

19. No material findings relating to the reliability of performance information remained unresolved.

## **Compliance with laws and regulations**

### **Annual financial statements, performance and annual report**

20. The accounting officer did not submit the financial statements of the municipality for auditing within two months after the end of the financial year, that is 31 August, as required by section 126 of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). The financial statements were submitted on 5 September 2011.
21. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of investment property, property, plant and equipment, VAT liability, disclosure of debtors, and of supply chain management deviations identified by the auditors were subsequently

corrected resulting in the financial statements receiving an unqualified audit opinion.

#### **Procurement and contract management**

22. Final awards and recommendation of awards to the accounting officer were not always made by an adjudication committee, which was constituted as per the requirements of the Municipal Supply Chain Management Regulations, 2005, regulation 29(2).

#### **Expenditure management**

23. The accounting officer did not take all reasonable steps to prevent irregular and unauthorised expenditure, as disclosed in note 44 to the financial statements, as required by section 62(1)(d) of the MFMA.

#### **Asset management (Inventory)**

24. The accounting officer did not take all reasonable steps to ensure that the municipality maintains an information system which accounts for inventory, as required by section 63(2)(a) of MFMA.

#### **INTERNAL CONTROL**

25. In accordance with the PAA and in terms of General notice *1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the basis of opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

#### **Leadership**

26. Leadership did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls:
  - Leadership did not ensure that financial statements submitted for auditing were prepared in all material respects in accordance with the requirements of section 122 of the MFMA, due to management placing reliance on the consultants for the preparation of the financial statements without timely monitoring and review of this process. Furthermore management did not implement appropriate systems to ensure that actual results reported for predetermined objectives in the annual performance report is correct and supported by sufficient appropriate audit evidence.
  - The accounting officer did not monitor compliance with the Municipal Supply Chain Management Regulations, 2005 by ensuring that members of the bid evaluation committee are not members of the bid adjudication committee or that their status are appropriately indicated when attending adjudication committee meetings as observers.

#### **Financial and performance management**

27. Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting:

- Processes were not implemented by management to ensure the review and monitoring for reporting on predetermined objectives. Controls over the preparation of a complete and accurate annual performance report to ensure that the reported performance agreed to the supporting documentation and accurately reflected the performance of the municipality were lacking. Furthermore municipal staff responsible for performance management processes did not have a complete understanding thereof since the processes were not institutionalised throughout the entity.
- Management furthermore did not design and implement appropriate systems for the recording of inventory as required by section 63(2)(a) of the MFMA. This was as a result of a lack of awareness that the municipality should have a system implemented that accounts for inventory and a failure to implement controls for the business risks associated with inventory by management.

*Auditor - General*  
Cape Town

4 January 2012



AUDITOR - GENERAL  
SOUTH AFRICA

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